



Investment Office

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April 17, 2009

AGENDA ITEM 6a

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT:** Revision of Policy on Internally Managed Global Enhanced Equity Strategies
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Recommend to the Investment Committee approval of the revised Statement of Investment Policy for Internally Managed Global Enhanced Equity Strategies.

IV. ANALYSIS:

This item entails a recommended revision to the Statement of Investment Policy for Internally Managed Global Enhanced Equity Strategies.

At the February 17, 2009 Investment Committee meeting, staff presented Item 9d, Active Internal Equity – Capital Allocation. This item included a proposal to “graduate” two emerging markets strategies out of the Global Equity Developmental Fund and into the mainstream program. The two emerging markets strategies are:

1. A Fundamental Factor portfolio wherein securities and weights are calculated from the fundamental accounting parameters of a firm’s sales, book value, cash flow, and dividend payouts (the U.S. Domestic and Developed International versions of which are already up and running), and

2. A Country-Tiered portfolio wherein countries are placed into specific tiered weights using multiple factors in addition to capitalization (factors include market size, liquidity, stage of economic development, operational risk, and portfolio risk). Securities are then capitalization-weighted within the countries.

The Committee approved the item, subject to adoption of policy language for the two strategies. The proposed revised Policy is included as Attachment 1 and contains three main changes:

1. Addition of the Emerging Markets sleeve of the Fundamental Factor strategy to sections IV B and V B.
2. Addition of the Country-Tiered Emerging Markets model to the policy (sections IV C and V C).
3. Dropping of "Dow Jones" from the index name and dropping of the benchmark description from section IV A.

The revised Policy is presented as a black-line version from the last adopted policy by the Investment Committee. The black line uses strike-out to indicate the deletions and double underline to indicate additions. Single underline does not indicate a change; rather it indicates that the term is defined in the glossary.

Wilshire's opinion letter is included as Attachment 2.

V. STRATEGIC PLAN:

This item will further the following goals of CalPERS Strategic Plan:

- Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX. Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

There are no costs associated with this item.

Members of the Investment Policy Subcommittee

April 17, 2009

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